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SUBJECT: Fiscal Federalism Comes to Sudan

¶1. (U) Summary: The Fiscal and Financial Allocation and Monitoring Commission (FFAMC), created under the CPA, has the responsibility to establish an entirely new, decentralized, federal, financial system. The first transfers to the 25 state governments under this new fiscal federalism are to take place in February, with monthly allocations thereafter. The head of the FFAMC described the need to build public awareness and understanding of the new system, as well as the need to build capacity at the state and local levels. The FFAMC faces challenges due to slow delivery of donor pledges, limited government support, and its own need for training. End Summary

Revenue Sharing Formula

¶2. (U) The Chairman of the Fiscal and Financial Allocation Commission (FFAMC), Ibrahim Moneim Mansour, met with Econ Officer January 30 and provided an overview of the new fiscal system being created for Sudan. Mansour terms the new model "fiscal federalism." The Comprehensive Peace Agreement (CPA) mandated the decentralization of government. In order to implement decentralization a new mechanism to distribute revenues to the 25 state governments is being created. The new system applies to funds defined as "National Revenues" (oil revenues are treated separately). The basic formula is 55.2% of National Revenues are allocated to the central government, and the remaining 45.8% to the 25 states. The portion going to the states has two parts: 40% of the total is divided equally among the states. The remaining 60% is allocated using a formula based on population of the state, number of students, number of hospital beds, and efforts to raise revenue locally. This allocation reflects the states' obligation to provide for basic education and health services. (Comment: Under this new system, the equitable distribution of funds depends on an accurate census. While Mansour did not discuss impact of the census on the fiscal system, it is yet another linkage between the census and the long term success of the CPA. End comment.)

Fiscal Federalism Starts in February

¶3. (U) The original intention was that the transfers to the states begin with the new fiscal year, that is, January 1, 2007. However, the Chairman said that due to the eleven days of holidays in late December and early January, the initial transfers were delayed and will now take place in February. The intention is that transfers are to be made directly to the states, but in 2007, the transfers to the ten Southern states will be made as a lump sum to the GOSS. Beginning in 2008, all transfers will be made directly to each state. Most states have accounts at the Central Bank of Sudan, so the transfers will be made using these accounts. Each state will be advised at the beginning of the year on the amount of the monthly transfer, so that planning can be done.

¶4. (U) Chairman Mansour described several weaknesses that the FFAMC

has identified and is seeking to address. One serious weakness is the lack of capacity at the local (county) level. FFMAC will make transfers to the states, and the states are expected to see that the appropriate transfers are made to the county level. The lack of capacity at the county level, however, causes concern for the FFAMC as to whether the funds will reach the programs for which they are budgeted. Mansour noted that there are considerable differences between states in their capacity to effectively utilize their allocations. He said that he is also concerned that some states will spend money carelessly early in the year, then expect the central government to bail them out. He has warned the states that this will not happen, and that they must plan on the basis of their monthly allocations.

15. (U) Mansour says that the FFAMC itself is hard pressed to do its work. It took the Commission over a year just to get its office up and running. The Commission staff needs more training, more travel funds and more vehicles. The government has furnished only one used pickup and one used SUV to the commission. Mansour complained that the World Bank and the Multidonor Trust Fund mechanism have been slow to deliver assistance. Bilateral donors also have been slow to help, although he said Norway was the exception. More money is needed for publicity and public education. There is a need to educate officials in the state governments on the operation of the new fiscal system, as well as a need to communicate to the general public the work of the FFAMC, fiscal federalism, and the CPA process. The Chairman said that he would like to have his staff travel to other federal countries, including Nigeria, South Africa, and Australia, but the commission budget for such travel is only \$16,000.

Coordination with AEC desirable

16. (U) The shift of resources to the state governments is a

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significant change in power in Sudan's political system. The Chairman is concerned the slow pace in building public awareness and understanding of the new system could impede its success. Mansour said that he would like to improve communication with the Wealth Sharing working group of the AEC as part of the effort to improve understanding of the emerging fiscal federalism. Embassy will try to arrange such a meeting in the next few days.

POWERS